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Japan Tackling Trade Problems with the United States

After a lull of several months during which attention in Japan was absorbed by the lower house elections, bilateral trade issues are once again coming to the fore. Faced with renewed pressure from the United States, Prime Minister Yasuhiro Nakasone is pressing his government for another package of unilateral concessions by the spring.

Now that the elections and the reshuffling of political posts has been completed, the Japanese government must confront several important developments. The agreement on beef and citrus quotas expires at the end of March, as does the extension of the agreement on Nippon Telegraph and Telephone (NTT) procurement practices. In June, the industrial nation summit will take place, and will be followed by the U.S. presidential election campaign, which carries the threat of protectionist actions directed against Japan. For all

the Alcan case apparently upheld that principal. Montreal-based Alcan, not its American subsidiary, filed the suit.

The court's decision still leaves open the possibility of legal challenges by firms based in the United States, including foreign-owned subsidiaries. This legal avenue remains unchanged for companies with the will and patience to attack unitary taxation. At least two Japanese-owned subsidiaries operating in California are preparing such suits (see JEI Reports 45B, 12/2/83, and 47B, 12/16/83, for additional background information).

The Supreme Court decision will not affect deliberations by a U.S. task force studying the tax. The task force met behind closed doors from January 10 to 12 to complete final recommendations for resolving unitary tax disputes. The group's self-imposed deadline is February 24, the next meeting of the working group, after which the suggestions will be forwarded to the president for action at the executive level.

In the meantime, a delegation from Keidanren, Japan's largest business organization, is set to tour 13 American states to lobby against the unitary tax. The delegation, which will be led by Sony Corp. chairman Akio Morita, was formed after it became evident that the U.S. government would not seek legislation in Congress to repeal the unitary tax method. It is doubtful that the mission will influence the U.S. task force or states which currently use the unitary tax system, although it could be an indication of greater willingness on the part of Japanese businesses to lobby directly and aggressively in the United States on issues affecting their own interests.

Michael Chinworth

EPA Sees 4.1 Percent GNP Growth in FY 1984

Japan's Economic Planning Agency (EPA) will propose to the Nakasone Cabinet that the country strive for 4.1 percent real growth in the 1984 fiscal year beginning April 1. If adopted, it will be the first time in five years that a real growth rate of over 4 percent is expected. In nominal terms, GNP growth of 5.9 percent is forecast, along with a rise in the consumer price index of 2.8 percent and an increase in wholesale prices of 1.0 percent. Domestic demand is expected to serve as the engine pulling the economy - accounting for 3.6 percentage points of total growth with external demand making up the other 0.5 percentage points. A current-account balance of $23 billion is predicted for FY 1984, the same level as expected for FY 1983. While no target is set for a yen-dollar exchange rate, the outlook is predicated on an exchange rate in the Y220 - Y225 per dollar range.

A number of private forecasts for FY 1984 are summarized in the following table as well as the official figures. Most of these are based on the following assumptions: the Bank of Japan's discount rate will remain at 5.0 percent throughout 1984; planned income and residential tax cuts totaling Y1.2 trillion will be implemented in full; and Y1 trillion in revenues will be raised through an increase in indirect taxes. As can be seen, there is a fairly wide range in each category with the banks on the low end and the research institutions on the high end, sandwiching the securities companies and the government in between. The primary factor leading to differences among

FY 1984 Forecasts for the Japanese Economy

(percentage change)

	Real GNP Growth	Real Private Consumpt.	Real Capital Invest.	Exports	Imports	Current Account Surplus*	Yen/$ Exchange Rate
Japan Economic Research Center	4.9%	3.9%	6.9%	12.4%	7.2%	$35.1	Y221.25
Mitsubishi Research Institute	4.7	4.6	6.3	13.8	5.2	35.4	226.0
Research Institute of National Economy	4.8	3.8	7.2	10.5	8.0	30.51	235.25
Fuji Bank	4.0	4.1	4.5	11.0	12.5	25.9	225.0
Mitsubishi Bank	4.5	4.2	5.4	7.6	5.2	19.4	247.0
Sumitomo Bank	3.8	3.3	5.6	6.2	3.5	29.0	230.0
Taiyo Kobe Bank	4.1	3.8	4.0	8.5	6.9	26.8	222.5
Hokkaido Takushoku Bank	3.6	4.4	3.2	5.9	6.4	24.42	227.5
Nomura Research Insitute	4.3	4.2	5.6	8.9	11.2	21.0	225.0
Nikko Research Center	4.2	4.4	5.7	10.8	12.8	24.0	225.0
Daiwa Securities Research Institute	4.8	4.6	4.4	9.1	11.2	24.285	222.13
Yamaichi Research Institute of Securities and Economics	4.4	4.3	6.4	13.6	12.7	30.32	225.0
Kangyo Kakumaru Research Institute	4.6	4.3	6.6	8.0	8.1	22.2	224.0
Asahi Mutual Life Insurance	4.8	3.9	5.2	12.8	14.2	27.9	221.0
Economic Planning Agency (EPA)	4.1	4.0	n.a.	n.a.	n.a.	23.0	n.a.

*in billions of dollars.

forecasters is the variance in the growth of personal expenditure, which constitutes 60 percent of Japan's GNP. In the past, this category has proved to be highly volatile and remains a hotly debated topic in Japan.

On the basis of an improved world economy in 1984, especially in the United States, the government's goals should be within reach. As the U.S. recovery picked up steam, it pulled the Japanese economy along not only by importing more Japanese products, but also by stimulating Japan's Asian trading partners, including Taiwan, South Korea and the ASEAN nations. While external demand drove the economy to 6 percent-plus annualized growth in the third quarter of 1983 (see JEIR 1B, January 6, 1984), domestic demand also began to pick up. Sustaining this trend, however, will be the crux of the government's effort to meet its 1984 goals, and there are some encouraging signs. Figures for the third quarter of 1983 point to increasing investment by small and medium-sized Japanese firms which make up the vast majority of Japanese businesses. Profit margins for major corporations have also been improving. This expansion should help to increase employment in 1984, raising personal consumption. Another positive sign is the increase in overtime pay as output rises. While prospects for the 1984 spring wage negotiations are moderate, with most observers predicting an average 5 percent increase, it will still be an improvement over 1983's 4.4 percent increase and will support the increase in employment. Finally, the positive psychological effects of a robust U.S. and Japanese recovery may enhance both investors' and consumers' attitudes.

On the other hand, there are numerous pitfalls that lie in the government's path, many of which are beyond its control. The most frequently mentioned possibility is a worsening of trade frictions over Japan's continued trade surpluses with the United States and the European Community. Another possibility is an oil crisis linked to the Iran-Iraq war. Given the high budget deficits, government spending is not likely to increase and may even drop if the government is not able to recover revenue lost through the income-tax cuts.

The EPA proposal will be presented on January 20 to the Nakasone Cabinet for endorsement as part of the FY 1984 budget process now in progress.

Jon Choy

R&D Spending Continues to Rise in Japan

According to figures recently released by the Prime Minister's Office, a record Y6,528.7 billion ($28.3 billion at current exchange rates) was spent by Japan's 15,400 research institutions in fiscal 1982. While this increase of 9.1 percent (Y546.3 billion) over FY 1981's total research and development (R&D) expenditures fits the pattern of consistently rising R&D outlays, it is the first time since 1975 that the increase has fallen below 10 percent and represents the smallest gain in over 15 years. As a percentage of gross national product, the FY 1982 increase raised the R&D figure only 0.08 percentage points to 2.44 percent. However, the Japanese continue to close the gap with West Germany, which spent 2.66 percent of FY 1981 GNP on R&D, and the United States, where the FY 1982 figure was 2.53 percent. Japan now ranks third in the world in terms of total R&D expenditures - behind the U.S. ($84 billion in FY 1982) and the Soviet Union ($31.7 billion in 1980).

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-November 1982	January-November 1983	September 1983	October 1983	November 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 15,567	$ 27,672*	-$ 3,369*	$ 3,094*	$ 2,115*
Exports (f.o.b.)	149,522	137,663	125,218	130,566*	12,629*	12,771*	12,174*
Imports (f.o.b.)	129,555	119,584	109,651	102,894*	9,260*	9,677*	10,059*
Current Account Balance	4,770	6,850	5,006	17,711*	2,688*	2,281*	868*
Long-Term Capital (net)	-9,672	-14,969	-14,672	-16,135*	-2,409*	-2,379*	-1,412*
Overall Balance	-2,144	-4,971	-5,207	4,140	318	-172	1,078
International Reserves (end of period)	28,403	23,262	22,976	24,697	24,641	24,665	24,697
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	5,283	17,592*	2,388	2,021	1,204*
Exports (f.o.b.)	152,030	138,831	126,289	131,696*	12,791	12,835	12,400*
Cars	18,445	18,015	16,470	17,725*	1,673	1,708	1,613*
Steel	16,669	15,645	14,411	11,510*	1,150	1,111	1,077*
Imports (c.i.f.)	143,290	131,931	121,006	114,104*	10,403	10,814	11,196*
Crude Oil	53,343	46,274	42,218	35,777*	3,187	3,072	3,536*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	11,216	15,943*	2,079	1,976	1,950*
Exports (f.o.b.)	38,609	36,330	33,335	38,164*	4,085	4,043	4,020*
Imports (c.i.f.)	25,297	24,179	22,118	22,221*	2,006	2,067	2,069*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y219.90	Y235.00	---	---	Y236.10	Y233.60	Y234.00
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-16,095	-17,568	-1,027	-2,067	-1,931
Exports (f.a.s.)	21,823	20,966	19,163	19,809	1,948	2,005	2,095
Industrial Supplies	8,983	9,173	8,428	7,859	677	795	797
Food and Feed	5,896	4,971	4,582	5,118	564	515	535
Capital Goods	4,767	4,434	4,042	4,549	404	474	555
Consumer Goods	1,318	1,356	1,249	1,282	130	121	111
Imports (Customs)	37,612	37,744	35,258	37,376	2,976	4,071	4,025
Automotive Products	12,950	12,890	11,980	13,476	949	1,380	1,399
Industrial Supplies	7,179	6,795	6,451	4,898	425	515	514
Consumer Goods	8,340	7,842	7,321	7,528	638	882	837
Capital Goods	8,589	9,530	8,861	10,851	908	1,224	1,219

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-October 1982	January-October 1983	August 1983	September 1983	October 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.0%	5.5%	5.5%	5.0%
Outstanding Money Supply	8.9%	9.2%	9.5%	7.4%	6.9%	7.2%	7.2%
Industrial Production	1.0%	0.3%	0.7%	2.4%	5.0%	6.3%	8.2%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.8%	0.4%	2.4%	3.7%	7.5%
Number of Bankruptcies	-1.5%	-2.8%	-2.9%	10.7%	22.2%	24.1%	13.1%
Residential Construction Starts	-9.2%	-0.5%	-2.0%	-1.5%*	-1.7%	-3.7%	-2.0%*
Job Openings to Applications (ratio)	0.68	0.61	0.61	0.59	0.58	0.59	0.60
Nominal Wages	5.3%	4.5%	5.0%	3.7%	-1.5%	3.5%	3.3%
Labor Productivity	2.4%	1.0%	1.9%**	2.3%**	6.4%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-2.1%	-2.9%	-3.2%	-4.0%
Consumer Prices	4.9%	2.7%	2.8%	1.8%	1.2%	0.7%	1.4%
Yen-Based Export Prices	1.2%	3.9%	4.4%	-6.2%	-6.0%	-6.6%	-8.6%
Yen-Based Import Prices	1.6%	7.9%	7.5%	-7.0%	-9.5%	-10.6%	-15.0%

*Preliminary
**Through August of each year only.

For Japan's most recent GNP figures, see JEI Report No. 1B, January 6, 1984.

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